



FOR IMMEDIATE RELEASE

May 15, 2006

## FACT SHEET

### **MAYOR INTERVENES TO END RAIDS ON ENTERPRISE FUNDS: SANDERS PLAN YIELDS SAVINGS AND RETURNS OF MORE THAN \$2 MILLION TO WATER DEPARTMENT BUDGET**

### ***NEW RULES FOR “SERVICE LEVEL AGREEMENTS” SET IN PLACE MANY CURRENT AGREEMENTS ALREADY TERMINATED BY SANDERS***

#### **SERVICE LEVEL AGREEMENTS**

Service Level Agreements allow City Departments to provide staff and equipment to one another while continuing to fairly account for the costs of those services. In a report issued April 25, 2006, the San Diego County Grand Jury criticized the City of San Diego for not maintaining accurate records and accounting practices for the Service Level Agreements in place between Water and Wastewater operations and other City Departments.

Mayor Sanders will be providing a formal response to the Grand Jury about each of the recommendations they included in the report of April 25. The following constitutes a preliminary response to the Grand Jury's concerns and an announcement of the changes Mayor Sanders has already made to address the Grand Jury's recommendations.

#### **IMMEDIATE ACTIONS**

In accordance with the Grand Jury's recommendations, Mayor Sanders has taken immediate action to address the systemic failures that led to the Grand Jury's concerns.

- The Mayor has directed the Purchasing and Contracting Department and the Auditor & Controller to notify the Business Office Manager when any Service Level Agreement reaches its maximum budgeted amount.

- The Mayor directed that any amendments or budget enhancements for Service Level Agreements will be justified with complete and accurate information about available funds and service level needs for each Department involved in the agreement.
- The Mayor has also directed staff to implement a new operating procedure for intra-City property transfers that will insure the Real Estate Assets Department performs an appraisal and fair market valuation for any property recommended for transfer among City departments.
- As previously announced, the Mayor has also directed city staff to undertake a comprehensive audit of Water Department accounting practices. The result of that audit is anticipated by mid-June.
- Mayor Sanders is also appointing a new Water Department Director to oversee and manage Department operations including the new financial accounting procedures being implemented. Jim Barrett, a Professional Engineer with more than 20 years of experience in program and financial management expertise, will join the City's Public Works Department team.
- The Mayor has also directed staff to prepare a formal response to the 19 recommendations made by the County Grand Jury and related to the Service Level Agreements between city departments. A preliminary draft of this response includes recommendations to:
  - Cancel the Water Department's Service Level Agreement with the Park and Recreation Department for concession services at City lakes.
  - Terminate the Water Department's funding for the Binational Services Coordinator.
  - Increase oversight and documentation of costs incurred by the Real Estate Assets Department's involvement with water and wastewater system land transactions.
  - Determine the best storage and/or display options for historic water department documents.
  - Continue funding a portion of costs for the Police Department's helicopter when used to reduce labor costs for physical inspection of sewer lines following significant rains.
  - Treat all Service Level Agreements like the City's other formal contracts with new oversight and auditing of these agreements by the Purchasing and Contracting Department.
  - Revise all Service Level Agreement's to include performance standards, deliverables and the requirement for written evaluations.
  - Implement any corrective measures identified as critical by the audit firm currently reviewing water and wastewater bond expenditures and rates.
  - Retain equipment purchased by enterprise fund departments as needed and then offer that equipment for sale to general fund departments at fair market value.

## **REQUEST FOR COUNCIL ACTION**

- Mayor Sanders will be asking for the Council's authorization to refund \$600,000 to the Water Department from this year's budget in exchange for returning Chollas Reservoir to Park and Recreation Department control.
- The Mayor will also seek Council authorization to reimburse the Water Department \$188,000 for potable water pumped into the Chollas Reservoir Water Department and for the \$147,764 in labor costs expended to maintain the reservoir when it was managed by the Water Department

## **PRELIMINARY RESPONSES TO THE COUNTY GRAND JURY'S RECOMMENDATIONS**

### Grand Jury Recommendation 06-16

*"Require management to clearly define the appraisal methods when establishing a purchase price for water storage."*

The Mayor has directed that all Service Level Agreements include complete documentation for any costs associated with the agreement. He has also directed City departments to employ comprehensive cost estimates for any action or service rendered during the course of the agreement. The Mayor will require a full explanation of the methods used to determine costs and a cost benefit analysis where warranted. These requirements will apply to all agreements and will affect water storage cost estimates prepared by the Water Department.

### Grand Jury Recommendation 06-17

*"Require City Council oversight and approval for land or possessory rights purchases between city departments."*

The Mayor has directed City staff to provide fully documented accounting for any proposed land transactions among City Departments. The Mayor has also directed that the Real Estate Assets Department to provide an accurate appraisal of land values before any consideration of land rights transfers by any means. The Mayor will engage and inform the City Council about any substantive transfer of land among City departments.

### Grand Jury Recommendation 06-18

*"Require the Auditor and Controller Department to notify management when a Service Level Agreement exceeds the budgeted contract service price."*

The Mayor has directed the Purchasing and Contracting Department and the Auditor & Controller to notify the Business Office Manager when any Service Level Agreement reaches its maximum budgeted amount.

#### Grand Jury Recommendation 06-19

*“Immediately reduce the multi-million dollar financial losses to the Water Department and Park and Recreation Department in the operation of concession stands by requiring the Water Department managers to monitor the financial operations of concession stands, demonstrate their benefits to the ratepayer, and validate their consistency with the San Diego City Charter”*

The Mayor has directed the Water Department to cancel the Service Level Agreement with Parks & Recreation for concessions services. The Mayor has directed that concessions will no longer be subsidized with Water Department funds. The Mayor has directed the Water Department to establish a short-term, revenue-neutral, sole source vendor contract for the operations of the concessions for the period June 1 through September 30, 2006. He has also directed the Department to issue a Request for Proposals for a long-term vendor contract for operating the concessions.

#### Grand Jury Recommendation 06-20

*“Review Water Department and Metropolitan Waste Water Department funding for the Binational Affairs Coordinator and consider terminating the Service Level Agreement until a value to the departments can be demonstrated and the actual time spent on Water Department and Metropolitan Waste Water Department projects can be validated.”*

The Mayor has terminated this Service Level Agreement and the costs for the Binational Affairs Coordinator have been incorporated into the Community and Legislative Services Division within the Mayor’s office

#### Grand Jury Recommendation 06-21

*“Require the services, actual time spent, and product produced are documented and presented to Water Department and Metropolitan Waste Water Department management.”*

The Mayor has directed that all Service Level Agreements within the city will now include requirements for complete documentation of actual services, time, equipment and budget impacts.

#### Grand Jury Recommendation 06-22

*“Review the Water Department and Metropolitan Waste Water Department agreements with the Planning Department and consider terminating the agreements until it can be demonstrated that the rate payers benefit from participation in the General Plan Update.”*

The Mayor has terminated this Service Level Agreement. Management and budget officers for the Water and Wastewater systems will review any future proposals for Service Level Agreements with other Departments and will make a determination of need or continuing needs on a case-by-case basis.

Grand Jury Recommendation 06-23

*“Review what appear to be excessive overhead and labor charges for property management services from the Real Estate Assets Department.”*

The Mayor has directed that the Service Level Agreements between the Real Estate Assets Department and the Water and Wastewater operations of the City will be revised to provide greater oversight and auditing for services provided and costs incurred.

Grand Jury Recommendation 06-24

*“Require the Real Estate Assets Department’s involvement in all Water Department and Metropolitan Waste Water Department land transactions.”*

The Mayor has directed that the Real Estate Assets Department will provide the Water Department and the Wastewater operation with auditing and land valuation services for land transactions included as part of any Service Level Agreement.

Grand Jury Recommendation 06-25

*“Require the Real Estate Assets Department to document and justify all charges to the Water Department and Metropolitan Waste Water Department, including actual time spent by various personnel at different billing levels, to protect against what appears to be excessive charges.”*

The Mayor has directed that the Service Level Agreement between the Real Estate Assets Department and the Water and Wastewater operations of the City will be revised to provide greater oversight and auditing for services provided and costs incurred.

Grand Jury Recommendation 06-26

*“Identify the employees assigned to handle specific Water Department and Metropolitan Waste Water Department issues.”*

This issue has been addressed in a separate letter of response prepared by the City Attorney.

Grand Jury Recommendation 06-27

*“Clarify what legal services are provided by the General Fund and what constitutes “enhanced legal services.”*

This issue has been addressed in a separate letter of response prepared by the City Attorney.

#### Grand Jury Recommendation 06-28

*“Provide detailed billings to the Water Department and the Metropolitan Waste Water Department which identify the name(s) of personnel providing a service and identify specific charges for a specific service or time.”*

This issue has been addressed in a separate letter of response prepared by the City Attorney.

#### Grand Jury Recommendation 06-29

*“Ensure that the Water Department devises and implements an action plan to store, maintain and/or display historic Water Department documents when the Service Level Agreement is completed.”*

The Water Department is working with the Library Department to conclude the process of cataloging and archiving certain historic documents from its files. The Water Department will make a decision regarding the long-term storage and/or display of these documents once the Library staff has concluded their work.

#### Grand Jury Recommendation 06-30

*“Continue the use of this Service Level Agreement between Metropolitan Waste Water Department and the Police Department.”*

The City will continue to utilize this Service Level Agreement for services as needed.

#### Grand Jury Recommendation 06-31

*“Initiate a city management-oversight group, separate from the Water Department and Metropolitan Waste Water Department, to prevent abuse of enterprise fund resources. It would enact and enforce policies and procedures governing all uses of Service Level Agreements.”*

At the Mayor’s direction, oversight and auditing of Service Level Agreements has been transferred to the new Purchasing & Contracting Department. Service Level Agreements will now be treated similar to formal City contracts, with service levels, deliverables and payments formally reviewed by Purchasing & Contracting staff.

#### Grand Jury Recommendation 06-32

*“Require that each Service Level Agreement include quantifiable performance methodology and written evaluation to validate the suitability, effectiveness and efficiency of services provided.”*

The Mayor has directed all City departments to revise Service Level Agreements as needed to include performance standards and specific deliverables, and to specify that a written evaluation is required for each agreement.

#### Grand Jury Recommendation 06-33

*“Establish an independent management audit group to review the use of Service Level Agreements by the Water Department and Metropolitan Waste Water Department. This body should have the authority to recommend immediate changes to, or cancellation of, a Service Level Agreement upon discovery of Charter violations. It could verify that labor and overhead charges are relevant and reasonable.”*

At the Mayor’s direction, the City has contracted for a comprehensive audit of the water and wastewater bond expenditures and rates. The result of that audit, now expected in June, will guide the development of audit practices for the Water Department and for all Service Level Agreements utilized by the City. The City will implement any additional corrective measures for Service Level Agreements not already ordered as required following the audit.

#### Grand Jury Recommendation 06-34

*“Verify that costs for overhead and labor are commensurate to the value of the service received and are consistent among all Service Level Agreements.”*

The Mayor has directed that the Purchasing and Contracting Department will verify that all work performed under Service Level Agreements is consistent across each agreement and is comparable to all other City contracting practices.

#### Grand Jury Recommendation 06-35

*“Require that equipment purchased with Service Level Agreement funds be retained or disposed of by the department that paid for it.”*

Equipment purchased by departments with enterprise funds will be inventoried and retained as needed. Once that equipment has been determined to be in excess to, or no longer appropriate to the department’s needs, it can also be "sold" at fair market value to departments using general funds.